



Pension Consulting Alliance, Inc.

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April 11, 2011

Investment Policy Sub-Committee
California Public Employees' Retirement System
Lincoln Plaza, 400 P Street
Sacramento, CA 95814

Re: Role of Private Asset Class Board Investment Consultants Policy

Dear Members of the Investment Policy Sub-Committee:

In our capacity as Real Estate and AIM Consultants to the Board, Pension Consulting Alliance, Inc. ("PCA") has reviewed the proposed above referenced Role of Private Asset Class Board Investment Consultants ("Role of Consultants") policy. The development of this new policy was primarily driven by the desire of the Board to clarify and distinguish the roles and responsibilities of the various consultants used in the private asset classes by the System.

The new Role of Consultants policy accomplishes several objectives. First and foremost, the policy effectively separates and distinguishes the roles of asset class Board Consultants and asset class Investment Consultants (i.e., project or independent fiduciary consultants). By way of this policy, Board Consultants will be no longer involved with the direct selection or allocation of assets or the making of investment decisions that are within Staff's delegated authority. Board Consultants will also not provide any specialized project work for Staff. Board Consultants will serve primarily as an independent advisor to the Investment Committee and be active in higher level strategic guidance, investment policy and performance monitoring.

Additionally, the new policy initiates an effort to establish both a consistent framework for the use of consultants and a consistent standard of work to be delivered by consultants across the private asset classes (i.e., the prudent person opinion). Finally, from an administrative standpoint, the new Role of Consultants policy consolidates in one place the System's expectations and direction for consultants, which previously had been embedded in various investment policy documents.

PCA understands and supports the objectives of this policy initiative and believes that its adoption will enhance focus and accountability for both Staff and consultants across the private asset classes. The tradeoff is that, with less involvement in Staff activities, the Board Consultants are likely to have less informed insights into ongoing investment process, manager selection, monitoring process, adequacy of resources, etc. – about all of which the Board Consultants are expected to keep the Investment Committee apprised. The Board Consultants' involvement in transaction discussions is entirely at the discretion of the Senior Investment Officers (SIOs). To the extent that the SIOs do not choose to include the Board Consultants in transaction discussions on a regular basis, information available to the Board Consultants (and thereby to the Board) is likely to be less "real time" and nuanced than is currently the case.

Based on our review of the proposed policy and other supporting documentation, PCA endorses the adoption of the proposed Role of Consultants policy.